

Appeal No. 04-1323

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

ARTHROCARE CORPORATION,

Plaintiff-Appellee,

v.

SMITH & NEPHEW, INC.

Defendant-Appellant.

2004 MAY 5 PM 3:27
US COURT OF APPEALS
FEDERAL CIRCUIT

Appeal from the United States District Court for the
District of Delaware in Case No. 01-504-SLR
Chief Judge Sue L. Robinson

RECEIVED

**RESPONSE OF PLAINTIFF-APPELLEE
ARTHROCARE CORPORATION TO SMITH & NEPHEW'S
EMERGENCY MOTION TO STAY INJUNCTION PENDING APPEAL**

Matthew D. Powers
Jared Bobrow
Perry Clark
WEIL, GOTSHAL & MANGES LLP
201 Redwood Shores Parkway
Redwood Shores, CA 94065
(650) 802-3000

Timothy E. DeMasi
WEIL, GOTSHAL & MANGES LLP
767 Fifth Avenue
New York, NY 10153
(212) 310-8000

Jack B. Blumenfeld
Karen Jacobs Louden
MORRIS, NICHOLS, ARSHT &
TUNNELL
1201 North Market Street
P.O. Box 1347
Wilmington, DE 19899-1347
(302) 658-9200

Attorneys for ArthroCare Corporation

CERTIFICATE OF INTEREST

Counsel for the Appellee, ArthroCare Corporation, certifies the following information in compliance with Rule 26.1 of the Federal Rules of Appellate Procedure and Rules 26.1 and 47.4 of the Federal Circuit Rules, and in satisfaction of Rule 12(b) of the Federal Rules of Appellate Procedure requiring a Representation Statement:

1. The full name of every party represented by me is: ArthroCare Corporation.
2. The names of the real parties in interest represented by me are the same as those identified in paragraph 1 above.
3. All parent corporations and any publicly held companies that own 10% or more of the stock of the party represented by me are: None.
4. The names of all law firms and the partners or associates that appeared for the party now represented by me in the trial court or agency or are expected to appear in this Court are: Please see attachment A.

Dated: May 6, 2004

Respectfully submitted,

WEIL, GOTSHAL & MANGES LLP

By: David Hickerson, on behalf of Jared Bobrow
Jared Bobrow
Attorneys Appellant
ArthroCare
Corporation

Attachment A

Weil, Gotshal & Manges LLP attorneys:

Matthew D. Powers
Jared Bobrow
Perry Clark
Timothy E. DeMasi
David Pollock

Morris, Nichols, Arsh & Tunnell attorneys:

Jack B. Blumenfeld
Karen Jacobs-Louden
James W. Parrett, Jr.

I. INTRODUCTION

Smith & Nephew's requested stay constitutes extraordinary relief and Smith & Nephew has not made the strong showing necessary to justify such relief.

Smith & Nephew's appeal from the dismissal of its antitrust counterclaim in no way justifies a stay pending appeal. Smith & Nephew's due process argument is unavailing because Smith & Nephew briefed, and the Court considered, its opposition to the dismissal in a motion for reconsideration – a fact that Smith & Nephew never mentions in its stay motion. On the merits, the antitrust counterclaim is utterly baseless, and was properly dismissed as a matter of law, because it is barred under the *Noerr-Pennington* doctrine and because Smith & Nephew does not, and cannot, plead the required antitrust injury.

On the patent side, Smith & Nephew fares no better. The jury found in favor of ArthroCare on 16 patent claims in three different patents. ArthroCare is entitled to an injunction if just one of the 16 claims is upheld on appeal. Smith & Nephew has failed to show that the jury and the District Court decided infringement and invalidity incorrectly on all 16 claims.

The equities also weigh heavily against granting the requested stay. ArthroCare created the market for RF electrosurgical devices. Smith & Nephew entered the market with its infringing products six years after ArthroCare and with full knowledge of ArthroCare's patents. Without an injunction, the two companies

compete directly in the market for the same customers. If Smith & Nephew is allowed to continue targeting ArthroCare's customers with infringing products, ArthroCare will continue to be irreparably harmed by the loss of market share and good will. Smith & Nephew, on the other hand, has made nearly twice as much money as it claims to have spent in bringing the infringing products to market and has done so with full awareness of the patents-in-suit. Likewise, the public interest will not be harmed by an injunction because, as Smith & Nephew has acknowledged, there are products on the market (including those of ArthroCare and its licensees) that are as good as, or better than, the infringing products.

II. SMITH & NEPHEW HAS FAILED TO SHOW A STRONG LIKELIHOOD OF SUCCESS ON THE MERITS OF ITS APPEAL

In order to prevail on its motion for a stay of injunction pending appeal, Smith & Nephew must make a "strong showing that it is likely to succeed on the merits." *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 897 F.2d 511, 514 (Fed. Cir. 1990). This standard is a high one because if injunctions routinely were stayed after trial, "the right to exclude granted by the patent would be diminished, and the express purpose of the Constitution and Congress, to promote the progress of the useful arts, would be seriously undermined." *Smith Int'l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1577-78 (Fed. Cir. 1983).

Smith & Nephew does not come close to making the required strong showing on the merits of its appeal. Both its antitrust counterclaim and its patent

infringement defenses are fatally flawed.

A. Smith & Nephew's Appeal On Its Antitrust Counterclaim Is Without Basis

1. Smith & Nephew Was Given A Meaningful Opportunity To Be Heard On ArthroCare's Motion To Dismiss

Smith & Nephew first argues that it likely will prevail on its antitrust counterclaim appeal because the District Court denied Smith & Nephew "due process" in dismissing the counterclaim. This argument, which Smith & Nephew makes without full disclosure to this Court, should be rejected.

As a matter of law, a due process violation does not occur "if the litigant has been afforded an opportunity to be heard and to present [its] case in a meaningful way." *Greene v. WCI Holdings Corp.*, 136 F.3d 313, 316 (2d Cir. 1998) (finding no due process violation in dismissal of complaint).

Here, Smith & Nephew cannot prevail on its due process theory because it presented, and the District Court considered, its arguments opposing dismissal. Although Smith & Nephew failed to apprise this Court, Smith & Nephew in fact set forth its opposition to dismissal in a detailed motion for reconsideration. *See Ex. 1. (Smith & Nephew's Motion For Reconsideration of Order Dismissing Antitrust Counterclaim, filed March 14, 2004).* There, Smith & Nephew argued that the antitrust counterclaim was based on a purported "illegal conspiracy in restraint of trade between ArthroCare and Ethicon, as evidenced by the

ArthroCare/Ethicon agreement.” Ex. 1 ¶ 6. Smith & Nephew explicitly argued in its motion for reconsideration that its counterclaim was “not based upon sham litigation” because it was not based “solely on the allegation that ArthroCare’s complaint was objectively baseless.” *Id.* ¶¶ 6, 7. In particular, Smith & Nephew argued before the District Court that:

While it is true that the counterclaim included allegations that the conspirators knew the lawsuit was baseless, its primary (and, in any event, sufficient) thrust remains that the unique “kickback” scheme of the ArthroCare/Ethicon license agreement, devised by competitors jointly comprising a 75% share of the U.S. market for arthroscopic RF surgical devices to maintain their market dominance and drive out remaining competitors like Smith & Nephew, violates Section 1 of the Sherman Act.

(*Id.*).

Smith & Nephew’s motion for reconsideration spanned five pages, and incorporated arguments made in over 25 pages of additional briefing. In all of this briefing, Smith & Nephew made precisely the same arguments it now contends it was precluded from making. The District Court considered and roundly rejected those arguments. Smith & Nephew Exs. 5, 8, and 11. In light of this extensive briefing and the District Court’s opinion denying the motion for reconsideration, there can be no dispute that Smith & Nephew was given a meaningful opportunity to be heard and the District Court did not deprive it of due process.

2. Smith & Nephew's Antitrust Counterclaim Fails To State A Viable Claim

In its antitrust counterclaim, Smith & Nephew repeatedly alleges, in paragraph after paragraph, that ArthroCare filed this lawsuit knowing that the patents-in-suit were “invalid, unenforceable, and/or not infringed” – the tell-tale language of a sham litigation claim. Smith & Nephew Ex. 20 ¶¶ 30, 31, 34, 36. The counterclaim also expressly ties Smith & Nephew’s alleged injury – exclusion from the market – to sham litigation, pleading that ArthroCare knew that any suits it would file under a settlement agreement with Ethicon would be a sham because ArthroCare “knew” that its patents were “invalid.” *Id.* ¶ 34.¹

Now, after expressly pleading only “sham litigation,” Smith & Nephew tries to recast its counterclaim as a non-sham antitrust conspiracy. This it cannot do and, as a result, Smith & Nephew cannot make a strong showing of likely success on appeal.

¹ The settlement agreement resolved a patent suit that ArthroCare brought against Ethicon in 1998. Under the settlement agreement, [REDACTED]

[REDACTED] . Smith & Nephew Ex.

16 ¶ 4.3. At the same time, the agreement [REDACTED]

[REDACTED] . Smith & Nephew Ex. 16 ¶ 8.3. To compensate Ethicon for the loss of co-exclusivity that would result if a license were granted to another competitor, the parties agreed that Ethicon’s effective royalty rate would be decreased through a royalty sharing provision. *Id.* ¶ 8.3. Pursuant to this provision, ArthroCare has licensed another medical device company (Stryker Corporation).

a. **Smith & Nephew's Counterclaim Must Fail Under The *Noerr-Pennington Doctrine***

As a patent owner, ArthroCare has an unfettered right under the *Noerr-Pennington* doctrine to bring suit to enforce its patent rights unless the suit is a “sham.” *In re Indep. Serv. Org. Antitrust Litig.*, 203 F.3d 1322, 1326 (Fed. Cir. 2000) (“a patent owner who brings suit to enforce the statutory right to exclude others from making, using, or selling the claimed invention is exempt from the antitrust laws, even though such a suit may have an anticompetitive effect”).

As pleaded, Smith & Nephew’s counterclaim is based entirely on the premise that this litigation was a “sham.” Paragraph after paragraph of the two-page antitrust counterclaim alleges that ArthroCare sued Smith & Nephew knowing that ArthroCare’s patents were “invalid, unenforceable, or not infringed.”

Smith & Nephew Ex. 20. For example, Smith & Nephew pleads that:

30. ArthroCare and Ethicon have engaged in conduct constituting violations of § 1 of the Sherman Antitrust Act by bringing and maintaining this action to restrain competition *knowing that '536, '882, and/or '592 patents are invalid, unenforceable, and/or not infringed by any act of Smith & Nephew.*

31. ArthroCare’s Complaint in this action alleges that Smith & Nephew has infringed the ‘536, ‘882, and/or ‘592 patents. Upon information and belief, at the time ArthroCare filed its Complaint in this action, *ArthroCare and Ethicon were aware that the '536, '882, and/or '592 patents were invalid, unenforceable, and/or not infringed by any act of Smith & Nephew.*

34. Upon information and belief, ArthroCare and Ethicon settled the first ArthroCare litigation to prevent or restrain other competitors from entering the market, *whereby the Settlement Agreement gave to*

*both parties the benefit of any future litigation by splitting any royalties procured through such litigation, even though both ArthroCare and Ethicon knew the '536, '882, and/or '592 patents are invalid.*²

36. This patent infringement action is objectively baseless in that no reasonable litigant could realistically expect success on the merits, particularly in the face of the findings and rulings made in the first ArthroCare litigation. Upon information and belief, ArthroCare commenced and maintained this action despite its knowledge that the '536, '882, and/or '592 patents are invalid, unenforceable and/or not infringed by any act of Smith & Nephew. Upon information and belief, ArthroCare and Ethicon have conspired to commence and maintain this action as an anticompetitive weapon to interfere directly with business relationships of a competitor to the benefit of both ArthroCare and Ethicon.

(*Id.* ¶¶ 30, 31, 34, and 36) (emphasis added). This is classic “sham litigation” pleading.

In dismissing Smith & Nephew’s counterclaim, the District Court properly concluded that Smith & Nephew pleaded a sham litigation counterclaim and that this lawsuit was not a “sham” because the jury found ArthroCare’s patents valid and infringed. *Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60 n.5 (1993) (“A winning lawsuit is by definition a reasonable effort at petitioning for redress and therefore not a sham.”).

Smith & Nephew does not contest that it cannot state a sham litigation claim. Instead, Smith & Nephew impermissibly tries to recast its counterclaim in its motion. It is well settled, however, that in determining a motion to dismiss,

² Smith & Nephew removed the italicized language of this paragraph.

courts may only consider what is alleged in the pleadings, and not what is argued in collateral papers. *ALA, Inc. v. CCAIR, Inc.*, 29 F.3d 855, 859 (3d Cir. 1994) (on a motion to dismiss “*the court must consider only those facts alleged in the complaint* and accept all of the allegations as true.”) (emphasis added).

In its motion, Smith & Nephew tries to rewrite its counterclaim by arguing that its counterclaim’s “primary thrust” was the allegation that the royalty sharing provision (or as Smith & Nephew calls it, the “kickback scheme”) was intended to “maintain market dominance and drive out the remaining competitors like Smith & Nephew.” Motion at 7-8. A review of the actual pleading makes clear that Smith & Nephew pleads no such thing. The antitrust counterclaim never says that the royalty sharing provision drives out competitors or prevents competitors from entering the market.

The most that Smith & Nephew actually pleads is that the agreement “gave to both parties the benefit of any future litigation by splitting royalties procured through such litigation even though both ArthroCare and Ethicon knew the ‘536, ‘882, and/or ‘592 patents are invalid.” Smith & Nephew Ex. 20 at ¶ 34. Yet even here, Smith & Nephew does not plead that the agreement or its royalty sharing provision excludes competitors.³ Rather, Smith & Nephew pleads that market

³ In fact the contrary is true here. After ArthroCare and Ethicon entered this agreement, ArthroCare licensed an additional competitor – Stryker Corporation –

exclusion results directly from patent litigation, specifically sham litigation. Under *Noerr-Pennington*, however, ArthroCare is free to bring patent litigation, irrespective of what it does with royalties, so long as the litigation is not a “sham.”

The cases on which Smith & Nephew relies to show that the ArthroCare/Ethicon agreement violates the Sherman Act are irrelevant because those cases address conduct that Smith & Nephew does not plead in its counterclaim. For example, unlike the cited cases, the counterclaim never alleges that ArthroCare refused to license its patents, much less that it did so as part of an agreement with Ethicon to create a patent pool.⁴

b. The Antitrust Counterclaim Does Not State A Claim Because Smith & Nephew Has Not Pleaded The Required Antitrust Injury

Smith & Nephew’s counterclaim also was properly dismissed as a matter of law because, given the jury’s verdict that ArthroCare’s patents were valid and

to enter the market pursuant to very provision about which Smith & Nephew complains.

⁴ This clearly distinguishes this case from *U.S. v. National Lead Co.*, 332 U.S. 319, 327-328 (1947), *U.S. v. Singer Mfg. Co.*, 374 U.S. 174, 197 (1963), and *Duplan Corp. v. Deering Milliken, Inc.*, 444 F. Supp. 648, 696 (D.S.C. 1977). Smith & Nephew’s remaining cases are similarly distinguishable because (1) there are no allegations of price fixing, as there were in *Burlington Indus., Inc. v. Milliken & Co.*, 690 F.2d 380, 388 (4th Cir. 1982), *Ansul Co. v. Uniroyal, Inc.*, 448 F.2d 872, 882 (2d Cir. 1971), *U.S. v. Krasnov*, 13 F. Supp. 184, 202 (E.D. Pa. 1956), *U.S. v. New Wrinkle*, 342 U.S. 371, 377 (1952), and *U.S. v. U.S. Gypsum*, 333 U.S. 364, 366 (1948), and (2) the remaining cases cited do not even relate to patent license agreements, *see e.g.*, Motion at 10-11.

infringed, Smith & Nephew cannot plead antitrust injury, an essential element of any antitrust claim. *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 489 (1977) (A party cannot sustain an antitrust claim unless it pleads and proves that its alleged injury is “of the type the antitrust laws were intended to prevent and that flows from that which makes defendants’ acts unlawful.”). When, as here, the patent covers a party’s product, the party cannot show that it was excluded from the market as a result of anticompetitive behavior rather than the patent grant. *Axis, S.p.A. v. Micafil, Inc.*, 870 F.2d 1105, 1106 (6th Cir.), *cert. denied*, 493 U.S. 823 (1989) (finding no “injury of the type the antitrust laws were intended to prevent” because defendant’s patents prevented plaintiff from entering the market); *see also City of Pittsburg v. West Penn. Power Co.*, 147 F.3d 256, 268 (3d Cir. 1998).

Here, Smith & Nephew asserts exclusion from the market (Smith & Nephew Ex. 20 ¶ 34), but Smith & Nephew has not pleaded, and cannot plead, that any anticompetitive conduct *caused* its exclusion. Smith & Nephew is in the market now. Its exclusion will result from the injunction that issues on the verdict and judgment of patent infringement. Just as in *Axis*, where the antitrust defendant’s patents covered the antitrust plaintiff’s products, Smith & Nephew’s alleged injury directly results from the fact that ArthroCare’s patents cover Smith & Nephew’s products, a fact which is not actionable under the antitrust laws.

B. Smith & Nephew Cannot Prevail On The Merits Of Its Patent Infringement Defenses

The jury found that Smith & Nephew infringes all 16 asserted claims from the three patents-in-suit, and the jury found infringement on all grounds presented to it at trial: direct infringement, inducement of infringement, and contributory infringement. The jury also found that all of the asserted claims are not invalid. After considering extensive post-trial briefing by Smith & Nephew seeking both judgment as a matter of law and a new trial, the District Court agreed that there was substantial evidence supporting the jury's findings and entered judgment. Because Smith & Nephew must convince this Court to overturn the judgment of infringement and validity on all 16 of the asserted claims, Smith & Nephew cannot demonstrate that it is likely to prevail on appeal.

1. Smith & Nephew's Belated Instigation Of Reexamination Proceedings Is No Reason To Stay The Injunction

Smith & Nephew argues that the injunction should be stayed because the Patent Office's grant of Smith & Nephew's requests for reexamination raises substantial doubt as to the validity of ArthroCare's patents. Motion at 11. That is wrong. As this Court has made clear, "the grant by the examiner of a request for reexamination is not probative of unpatentability." *Hoechst Celanese Corp. v. BP Chems. Ltd.*, 78 F.3d 1575, 1584 (Fed. Cir. 1996).

There is no reason to stay the injunction especially where, as here, the

requests for reexamination were filed for tactical advantage. Rather than filing requests for reexamination when it first learned of the allegedly invalidating prior art, Smith & Nephew waited until the eve of trial – April 2003 – to file its requests. Knowing that reexamination proceedings take years to resolve, Smith & Nephew clearly intended the pendency of the reexamination to keep a cloud over ArthroCare's patents.

Moreover, in order to change the outcome of this case, the Patent Office would have to find that all 16 asserted claims are not patentable or require substantive amendment. This result is highly unlikely because most of the art cited by Smith & Nephew already has been considered by the Patent Office.⁵ The admissions of Smith & Nephew's own experts at trial also establishes that the art cited in the reexaminations fails to disclose limitations in ArthroCare's claims (e.g., electrically conducting fluid, return electrode, ultraviolet photons, etc.). Ex. 2 at 1345-51. Finally, it is instructive that the Patent Office already reexamined the '536 patent-in-suit over a period from 1999 to 2003. After considering numerous prior art references, including the Roos reference (about which Smith & Nephew makes much in its motion), the Patent Office issued a reexamination

⁵ For example, all of the art Smith & Nephew cites in the '592 patent reexamination was considered during the original prosecution of the '592 patent, and all of the art Smith & Nephew cites in the '536 patent reexamination was considered in either the '536 prosecution or the previous '536 reexamination.

certificate that did not change a single word in a single claim of the '536 patent.

Ex. 3.

Smith & Nephew's reliance on the *Standard Havens* case is misplaced. There, the Patent Office withdrew approval of a certificate of correction after trial, which necessarily changed the claim scope and augured well for a finding on appeal that the denial of appellant's motion for a new trial was an abuse of discretion. *Standard Havens*, 897 F.2d at 514. Moreover, in *Standard Havens*, this Court did not require that the appellant demonstrate a "strong chance" of prevailing on appeal because the appellant had demonstrated that, without a stay, it would go bankrupt and suffer irreparable harm. *Id.* at 515. In this case, by contrast, the "strong chance" standard applies because Smith & Nephew contends that its financial position is strong. Motion at 20.

2. There Are No Significant Claim Construction Issues

Smith & Nephew describes only one alleged claim construction error, namely, the construction of the term "connector," which is a limitation in only one of the three patents-in-suit, the '536 patent. Thus, even if Smith & Nephew were correct, which it is not, ArthroCare still would be entitled to an injunction under the '882 and '592 patents-in-suit.

In any event, Smith & Nephew's claim construction argument regarding "connector" lacks merit. The specification of the '536 patent refers to a removable

connector *only once* and never defines “connector” as being limited to a “removable connector.” Neither the specification nor the file history ever states or suggests that a connector must be removable or that removability is an essential feature of the claimed inventions. *See Teleflex, Inc. v. Ficosa N. Am. Corp.*, 299 F.3d 1313, 1325 (Fed. Cir. 2002) (stating that patent terms take on their ordinary meaning unless there is a “clear disavowal of claim scope”). ArthroCare presented substantial evidence that a person of ordinary skill would have understood that “connector” does not require removability. Ex. 4.

Smith & Nephew’s argument that the words “a connector located near the proximal end of the shaft” have no meaning under the District Court’s construction (Motion at 14) also is without merit. The District Court construed the term “connector” to mean “a structure that electrically links the electrode terminal to the high frequency power supply.” Smith & Nephew Ex. 26 at 2. Contrary to Smith & Nephew’s assertion, the Court’s construction of “connector” does not read “located near the proximal end of the shaft” out of the claim – the claim still requires that the connector be located near the proximal end of the shaft.

3. The Certificate Of Correction Issue Is Moot

Smith & Nephew argues that the injunction should be stayed because the District Court erred in submitting the validity of the ‘882 patent’s certificate of correction to the jury rather than decide the issue as a matter of law. Motion at 15.

This argument in no way warrants a stay. First, the issue is moot because the District Court, in denying Smith & Nephew's post-trial motions, expressly “[a]greed with the jury's verdict that the certificate of correction is valid.” Smith & Nephew Ex. 5 at 68. Second, Smith & Nephew cannot raise this issue on appeal, because it did not object to the District Court submitting the validity of the certificate of correction to the jury. *Id.* at 67. Finally, even if accepted, Smith & Nephew's argument would affect only the infringement verdicts on the '882 patent. The infringement verdict on the '592 and the '536 patents independently support the entry of an injunction.

III. THE EQUITIES AND PUBLIC INTEREST ESTABLISH THAT THE COURT SHOULD DENY THE STAY

A. ArthroCare Will Be Irreparably Harmed By A Stay

Smith & Nephew's argument that ArthroCare will not be substantially harmed by a stay of the injunction ignores the presumption of irreparable harm that arises from a finding of infringement. *H.H. Robertson Co. v. United Steel Deck, Inc.*, 820 F.2d 384 (Fed. Cir. 1987) (“irreparable harm has been presumed when a clear showing has been made of patent validity and infringement”). ArthroCare's licensing of the patents-in-suit does not diminish this presumption of irreparable harm. *Odetics, Inc. v. Storage Techs. Corp.*, 14 F. Supp. 2d 785, 795 (D. Minn. 1998) (even where patentee no longer practices claimed invention, “the existence of two licenses to practice [the patent-in-suit] does not mean that [the patentee] has

given up all control over who may practice the rights granted exclusively to it by the patent.”), *aff’d*, 185 F.3d 1259 (Fed. Cir. 1999).⁶

ArthroCare and Smith & Nephew compete in the market for the accused products and ArthroCare is being irreparably harmed by the loss of market share to Smith & Nephew. As Smith & Nephew acknowledges, its market share [REDACTED]

[REDACTED] Ex. 5 at 12.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] *Id.* ArthroCare’s loss of market share results in the loss of goodwill and opportunities for research and development, none of

⁶ The cases on which Smith & Nephew relies are readily distinguishable because ArthroCare has never willingly licensed anyone and competes with Smith & Nephew in the market. ArthroCare sued both Ethicon and Stryker before it granted a license in the field. [REDACTED]

[REDACTED] Ex. 6 at 4 and 25. In *E.I. DuPont de Nemours & Co. v. Phillips Petroleum Co.*, 835 F.2d 277, 278 (Fed. Cir. 1987), by contrast, a stay was granted because the plaintiff was “divesting itself from the market for the accused products,” and thus would not be irreparably harmed by the stay. *Standard Havens*, 897 F.2d at 514, is likewise inapplicable because it was silent as to whether the patentee actually licensed any competitors. Lastly, in *Polymer Tech., Inc. v. Bridwell*, 103 F.3d 970, 974 (Fed. Cir. 1996), a stay was not at issue and this Court *upheld* the grant of injunctive relief.

which can be replaced with money damages.⁷ *See Bio-Technology General Corp. v. Genentech, Inc.*, 80 F.3d 1553, 1566 (Fed. Cir. 1996) (upholding a finding of irreparable harm where “the district court determined that [the patentee] would be harmed if [the accused infringer] were allowed to enter the market because [the patentee] would lose revenues and goodwill, and would be required to reduce its research and development activities”).

B. Smith & Nephew Has Failed To Demonstrate That It Would Be Harmed By An Injunction

Smith & Nephew argues that if the injunction is not stayed, the time and money it has devoted to developing the infringing products will be lost. Motion at 17. Smith & Nephew has not demonstrated that this constitutes irreparable harm. According to Smith & Nephew, it has spent only \$2.4 million in bringing to market the products that will be enjoined. Smith & Nephew has more than recovered its investment, as its CEO testified at trial last year that it had earned approximately \$5 million selling those products. Motion at 17; Ex. 7 at 876.

Smith & Nephew entered the arthroscopy market with full knowledge of ArthroCare’s patents. Smith & Nephew admits that it was aware of the ‘536 and ‘882 patents in January 1998. Ex. 8 at 540. Smith & Nephew also launched two

⁷ The District Court also found in the present case that this loss of market share resulted in the loss of goodwill, which constitutes irreparable harm. Smith & Nephew Ex. 11 at 13.

infringing products (*i.e.*, the Saphyre and ElectroBlade) *after* this lawsuit was filed. Because Smith & Nephew assumed the risk of an injunction when it entered the market, it cannot now complain that the equities favor a stay.

C. The Public Will Not Be Harmed Because Products That Are As Good As, Or Better Than, The Accused Products Are Available

The public interest is served by enforcing ArthroCare's patent rights. *Windsurfing Int'l, Inc.*, 782 F.2d at 1003 ("Protecting patents from would-be infringers is always acting in the public interest."). In contrast, Smith & Nephew has failed to make a concrete showing of harm to the public if it is enjoined from continuing to infringe ArthroCare's patents. Smith & Nephew's first argument, that the infringing products offer unique features, must fail because Smith & Nephew itself has acknowledged that its competitors' products perform the same functions as its infringing products, and that ArthroCare's products are [REDACTED]

[REDACTED] Ex. 9 at SN 54918. Despite Smith & Nephew's claims about the uniqueness of the Electroblade, its own documents show that [REDACTED]

[REDACTED] Ex. 12 at SN46966.⁸

Smith & Nephew points to a statement by a doctor expressing a preference

⁸ There also is a product on the market made by Linvatec Corporation called the Trident which provides a rotary mechanical arthroscopic shaver and an RF coagulator, just like the Electroblade. Ex. 10.

for one of its infringing products to support its public interest argument. Motion at 18. The preference of one doctor, however, does not demonstrate that the alternative products on the market are not sufficient to serve physicians' needs, and Smith & Nephew itself has acknowledged that many doctors prefer ArthroCare's products. As Smith & Nephew's Sales Guide for the Saphyre warns its sales force:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] Ex. 11 at ORA 65075.⁹

IV. THE COURT SHOULD REQUIRE A BOND PENDING APPEAL

Smith & Nephew cites no authority for the proposition that simply because it is a "large, financially sound company," no bond should be required. Motion at 20. A *supersedeas* bond is normally required for a stay pending appeal. *Beatrice Foods Co. v. New England Printing and Lithography Co.*, 930 F.2d 1572, 1574 (Fed. Cir. 1991). The burden in showing that a low bond, or no bond, is appropriate is on the party seeking the stay. *Poplar Grove Planting & Refining*

⁹ The conclusory and untested declarations of the two surgeons on which Smith & Nephew relies are no better, and are not sufficient to justify a stay of the injunction. *See Shiley, Inc. v. Bentley Labs., Inc.*, 601 F. Supp. 964, 966 n.11 (C.D. Cal. 1985) (giving little weight to declarations of medical personnel that were untested by cross-examination), *aff'd*, 794 F.2d 1561 (Fed. Cir. 1986). Nor are the self-serving representations in the Konsin Declaration as to the purported advantages of Smith & Nephew's infringing products. Mr. Konsin's expertise, if any, is in marketing – not medicine – and he has not supported his opinions with any evidence, such as scientific studies, surveys of doctors, or technical analyses.

Co. v. Bache Halsey Stuart, Inc., 600 F.2d 1189, 1190-91 (5th Cir. 1979). Smith & Nephew has not satisfied its burden simply by proclaiming that it is financially sound. To adopt such a standard would permit every "sound" company to infringe patents with impunity and evade the bond requirement that all appellants are expected to satisfy. In accordance with traditional *supersedeas* principles, the Court should require a bond pending appeal.

V. CONCLUSION

For the reasons set forth above, Smith & Nephew's motion for a stay of injunction pending appeal should be denied.

May 6, 2004

Respectfully Submitted,

Dan Hickerson, on behalf of Jared Bobrow
WEIL, GOTSHAL & MANGES LLP
Jared Bobrow
Perry Clark
201 Redwood Shores Parkway
Redwood Shores, CA 94065
(650) 802-3000

Timothy E. DeMasi
WEIL, GOTSHAL & MANGES LLP
767 Fifth Avenue
New York, NY 10153
(212) 310-8000

Jack B. Blumenfeld
Karen Jacobs Louden
MORRIS, NICHOLS, ARSHT & TUNNELL
1201 North Market Street, P.O. Box 1347
Wilmington, DE 19899-1347
(302) 658-9200

DECLARATION OF SERVICE

I am a citizen of the United States, more than 18 years old, and not a party to this action. My place of employment and business address is 1501 K Street, Suite 100, Washington D.C. 20005-1411. On May 6, 2004, I caused a copy of: **RESPONSE OF PLAINTIFF-APPELLEE ARTHROCARE CORPORATION TO SMITH & NEPHEW'S EMERGENCY MOTION TO STAY INJUNCTION PENDING APPEAL** to be served on defendant-appellant Smith & Nephew, Inc. and appellee Ethicon as follows:

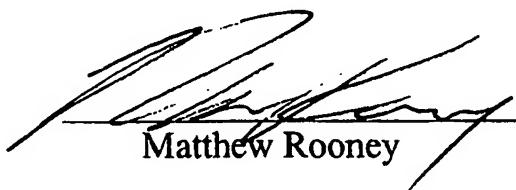
[X] BY OVERNIGHT COURIER SERVICE TO THE I am readily familiar with the business practice at my place of business for collection and processing of correspondence for deposit with an overnight delivery service. Correspondence placed for collection and processing is either delivered to a courier or driver authorized by said overnight delivery service to receive documents or deposited by an employee or agent of this firm in a box or other facility regularly maintained by said overnight delivery service that same day in the ordinary course of business.

**Ruffin B. Cordell
Fish & Richardson P.C.
1425 K Street, N.W., 11th Floor
Washington, D.C. 20005**

**Vicki Margolis
Venable, Baetjer, Howard & Civiletti,
LLP
1201 New York Avenue, N.W.
Suite 1000
Washington, D.C. 20005-3917**

**Steven Balick
Ashby & Geddes
222 Delaware Ave., 17 Floor
P.O. Box 1150
Wilmington, DE 19899**

Executed on May 6, 2004 at Washington, D.C. I declare under penalty of perjury that the foregoing is true and correct.



Matthew Rooney